

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: National Income: A Summary of Findings

Volume Author/Editor: Simon Kuznets

Volume Publisher: NBER

Volume ISBN: 0-87014-113-9

Volume URL: <http://www.nber.org/books/kuzn46-2>

Publication Date: 1946

Chapter Title: Introduction to "National Income: A Summary of Findings"

Chapter Author: Simon Kuznets

Chapter URL: <http://www.nber.org/chapters/c5437>

Chapter pages in book: (p. 1 - 2)

NATIONAL INCOME is the net product of or net return on the economic activity of individuals, business firms, and the social and political institutions that make up a nation. Because product or income yielding activities can be gauged at several stages of the economic process, national income can be measured in various ways, each permitting different groupings of components. At its origin in the productive system, it can be estimated as the sum of returns to the several factors of production—labor, capital, enterprise—each allocated by industrial origin. At this stage, the total can also be obtained by subtracting from the gross value-product of each industry the value of materials, semifabricates, durable capital, and services of other industries consumed in the production process. The corresponding allocation would be that of net income (and of gross value of product) by industrial origin. At the stage of the distribution of money compensation for economic activity, national income is the sum of income receipts of individuals and undistributed net profits of enterprises, the former possibly classified by type (wages, salaries, dividends, etc.), by size among groups of recipients, and by industrial origin, and the latter by industrial affiliation and type of enterprise. Finally, at the stage of use, national product or its monetary equivalent, national income, is the sum of either the flow of goods to consumers and net capital formation, allocated to whatever divisions of these two major categories are significant; or of expenditures and savings of consumers plus outlays of enterprises financed from their undistributed profits, also allocated to divisions of these three major categories.

National income can, therefore, be described in various ways, corresponding to the several stages in the flow-process of economic activity at which it can be measured. However measured, the totals should be identical. Likewise, they can be subdivided into various categories, of which those mentioned above are a few. Indeed, the interest and usefulness of national in-

come estimates lies in their distribution, so that the level of and changes in the total can be understood and interpreted in terms of its origin in the industrial system and of types of ultimate use. As problems in the solution of which national income estimates may be helpful shift, the emphasis in the measurement and analysis of national income shifts from one grouping of components to another.

The task of both subsuming the diverse economic activities within a nation under a single total and distinguishing within it the major categories raises a host of conceptual and statistical problems. Since World War I these problems have received much attention and the estimates have been extended and elaborated. In recent years national income, or closely related totals, has become a tool of public policy, discussed widely. A jaundiced observer might characterize this interest and discussion as symptoms of hypochondria, likening them to the behavior of a man who continually worries about his pulse, temperature, and blood pressure; and might describe the more detailed work on national income estimates as an escape into quantitative minutiae of doubtful relevance to urgent problems of the day. A fairer diagnosis might perhaps be that, granted the accentuation of economic problems to whose solution national income estimates can contribute, the growing interest and understanding are encouraging signs that social action may be more intelligent; and that the greater complexity of the statistical structure underlying the estimates is indispensable, if they are to be sufficiently detailed and reliable to be used in both economic analysis and public policy.

Whatever the reasons, the fact is that during the last twenty-five years we have learned a great deal about the national income of this country and its components. In attempting a brief summary, which must omit many details yet cover the high spots, we analyze first the structure of national income during the two decades between the two world wars, then the longer term changes in it and its components, as revealed by estimates for the seven decades 1869-1938, consider the fluctuations in it and its components during business cycles, and finally enumerate some of the problems of use and interpretation.